

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Basic Financial Statements

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

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KPMG LLP
Suite 3100
777 East Wisconsin Ave.
Milwaukee, WI 53202-5302

Independent Auditors' Report

To the City of Kenosha, Wisconsin
Board of Water Commissioners:

We have audited the accompanying basic financial statements of the City of Kenosha, Wisconsin Water Utility enterprise fund (the Utility) as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the City of Kenosha, Wisconsin Water Utility enterprise fund and is not intended to present the financial position of the City of Kenosha, Wisconsin as of December 31, 2005 and 2004, and the changes in its financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplemental schedules on pages 33 through 40 and 42 through 50 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The water tax equivalent calculation schedules listed on page 41 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

August 10, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Kenosha Water Utility's financial performance provides an overall review of financial activities for the years ended December 31, 2005 and 2004. This information should be read in conjunction with the financial statements.

2005 Financial Highlights

The Utility's combined net assets increased from \$126.5 million to \$134.9 million. Events that had significant impact on the financial statements were:

- Developer installed infrastructure, both water and sewer, was added to the Utility's assets valued at approximately \$2.3 and \$1.9 million respectively.
- Several water main projects were completed by the Utility during the year valued at approximately \$0.9 million.
- Construction in progress increased by \$3.0 million. Projects included water main replacements (\$1.8 million), an elevated tank west of I-94 (\$0.6 million), and the Strawberry Creek sewage lift station (\$0.6 million).

2004 Financial Highlights

The Utility's combined net assets increased from \$123.1 million to \$126.5 million. Events that had significant impact on the financial statements were:

- The Utility acquired assets from the Town of Bristol water and sewer utilities in accordance with a cooperative agreement between Bristol and the Utility. All assets west of Highway I-94 and north of Highway 50 were included in the transaction, with the exception of the abandoned Well #4. Net book value of these assets is \$0.5 million.
- Several water and sewer main installation projects were completed by the Utility during the year valued at approximately \$1.6 million and \$0.8 million, respectively.
- Developer installed infrastructure, both water and sewer, was added to the Utility's assets valued at approximately \$0.83 and \$0.78 million, respectively.

Overview of Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the Utility. The financial statements also include notes that explain in more detail some of the information in the financial statements. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary schedules. The MD&A represents management's examination and analysis of the Utility's financial condition and performance.

The financial statements report information about the Utility using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets; a

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statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

The *statement of net assets* presents the financial position of the Utility on a full accrual historical cost basis. The statement of net assets presents information on all of the Utility's assets and liabilities, with the difference reported as net assets. This statement provides information about the nature and amount of investments in resources (assets) and the obligations to Utility creditors (liabilities). Over time, increases and decreases in net assets is an indicator of whether the financial position of the Utility is improving or deteriorating. It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utility.

While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses, and changes in fund net assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, as well as the Utility's profitability and credit worthiness.

The *statement of cash flows* presents changes in cash and cash equivalents, resulting from operating, financing, and investing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The *notes to the basic financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utility's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The *supplemental schedules* provide more detail than the preceding schedules. A Schedule of Capital Assets is provided for the Water, Sewerage, and Household Hazardous Waste units. Detailed debt repayment schedules are provided for all debt issues. Detailed operating revenue and expense statements are provided as well as the water tax equivalent calculation.

Summary of Organization and Business

The Kenosha Water Utility's mission is:

"Providing and Protecting Kenosha's Greatest Natural Resource – *Water*"

The Kenosha Water Utility (KWU) provides water and wastewater service to more than 100,000 persons in the greater Kenosha area, including the City of Kenosha, Village of Pleasant Prairie, Town of Somers and Town of Bristol. The Kenosha Water Utility also provides a monthly household hazardous waste collection service for City of Kenosha residents.

The Kenosha Water Utility is a municipally-owned, fiscally-independent public utility organized under authority of Section 66.0805 of the Wisconsin State Statutes and Chapter XXXII of the City of Kenosha Code of General Ordinances. The Utility is an enterprise fund of the City of Kenosha and is solely financed by water and sewer

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service charges operating like a private business entity. The Utility has no taxing power and receives no tax revenues from the City of Kenosha. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers, developers, Federal and State grants and loans, bond sales, and Utility revenues.

The Board of Water Commissioners is composed of six aldermen appointed under authority of Section 1.06H of the City of Kenosha Code of General Ordinances. The powers and duties of the Board of Water Commissioners include establishing policy, adopting rules and regulations, adopting an annual budget, establishing water and sewer rates and fees, and approving contracts and agreements. The management and operation of the Water Utility is under the direction of the General Manager, Edward St. Peter, who is appointed by the Board of Water Commissioners.

Surface water from Lake Michigan has been Kenosha's source of water since 1894. Lake Michigan water is valued for both its quality and quantity. The Utility provides reliable high quality supplies of potable water used for drinking, irrigation, fire protection, and other purposes. The water treatment plant is the O. Fred Nelson Water Production Plant. The wastewater treatment plant provides primary and secondary treatment with disinfection in accordance with permits from the State of Wisconsin Department of Natural Resources. The treated wastewater is discharged to Lake Michigan and the solids are transported to a landfill. Both plants are in compliance with all State and Federal regulations.

Financial Analysis of the Utility

The Utility's financial condition is consistent with prior years with adequate liquid assets, reliable up to date facilities, and systems to meet demand as well as a reasonable level of unrestricted net assets. Management feels that the current financial condition, technical support staff capabilities, and operating and expansion plans will meet anticipated customer needs.

The condensed financial information and associated narrative are intended to provide additional information that is essential to the full understanding of the data provided in the audited financial statements and associated notes.

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Condensed Summary of Net Assets

	December 31			Variance of 2005 to 2004	
	2005	2004	2003	Dollars	Percentages
				Increase (decrease)	
Capital assets:					
Net plant in service	\$ 151,353,988	149,607,910	148,404,136	1,746,078	1.2%
Construction in progress	4,854,778	1,853,380	1,128,912	3,001,398	161.9
Other capital assets	952,743	967,230	981,719	(14,487)	(1.5)
Current, restricted, and other assets	<u>28,395,230</u>	<u>29,297,070</u>	<u>30,382,296</u>	<u>(901,840)</u>	<u>(3.1)</u>
Total assets	<u>185,556,739</u>	<u>181,725,590</u>	<u>180,897,063</u>	<u>3,831,149</u>	<u>2.1</u>
Current liabilities	7,196,402	7,741,573	6,465,838	(545,171)	(7.0)
Long-term liabilities	<u>43,419,053</u>	<u>47,459,285</u>	<u>51,339,625</u>	<u>(4,040,232)</u>	<u>(8.5)</u>
Total liabilities	<u>50,615,455</u>	<u>55,200,858</u>	<u>57,805,463</u>	<u>(4,585,403)</u>	<u>(8.3)</u>
Net assets:					
Invested in capital assets, net of related debt	111,035,801	102,427,573	96,870,468	8,608,228	8.4
Restricted for debt service	11,043,979	11,573,068	11,987,804	(529,089)	(4.6)
Unrestricted	<u>12,861,504</u>	<u>12,524,091</u>	<u>14,233,328</u>	<u>337,413</u>	<u>2.7</u>
Total net assets	<u>\$ 134,941,284</u>	<u>126,524,732</u>	<u>123,091,600</u>	<u>8,416,552</u>	<u>6.7%</u>

In 2005, total net assets increased \$8.4 million or 6.7%. This was due to combined net income of the Water, Sewerage, and Household Hazardous Waste units of \$3.3 million and capital contributions of \$5.1 million. Approximately \$4.4 million of the capital contributions was donated by developers and the remaining \$0.7 consisted of assessments and impact fees.

In 2004, total net assets increased \$3.4 million or 2.8%. This was due to combined net income of the Water, Sewerage, and Household Hazardous Waste units of \$1.5 million and capital contributions of approximately \$1.9 million. Capital contributions were primarily infrastructure donated by developers.

In 2005, total assets increased \$3.8 million or 2.1%. Capital assets increased \$8.5 million and accumulated depreciation increased \$3.8 million for a net increase of \$4.7 million. Plant in service increased \$5.5 million due to completion of water main replacement projects and infrastructure donated by developers. Construction in progress increased \$3.0 million; major projects included a sewage lift station at Strawberry Creek, an elevated tank west of I-94, and water main replacement projects. Total liabilities decreased \$4.6 million or 8.3% due to scheduled long-term debt payments.

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In 2004, total assets increased \$0.8 million or 0.5% due to increased net book value of capital assets. Capital assets increased \$5.2 million and accumulated depreciation increased \$4.0 million for a net increase of \$1.2 million. Construction in progress increased \$0.7 million; projects begun but not completed in 2004 include the Strawberry Creek sewage lift station and force and water main replacement projects. Total liabilities decreased \$2.6 million or 4.5%. Long-term liabilities decreased \$3.8 million or 7.6% due to scheduled debt payments. Current liabilities increased \$1.2 million or 19.7% due to an increase in amounts due to the City of Kenosha and a liability for assets acquired from the Town of Bristol.

The Water, Sewerage, and Household Hazardous Waste units are self-supporting entities. Net assets of one entity are not permanently used by other entities.

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Condensed Summary of Revenues, Expenses and Changes in Fund Net Assets

Year ended December 31	2005	2004	2003	Variance of 2005 to 2004	
				Dollars	Percentages
				Increase (decrease)	
Revenues:					
Water service revenues	\$ 9,980,429	8,263,133	8,548,519	1,717,296	20.8%
Sewerage service revenues	9,463,720	9,439,829	9,342,876	23,891	0.3
Household Hazardous Waste revenues	95,218	93,788	92,666	1,430	1.5
Other revenues	2,939,867	2,730,173	2,496,013	209,694	7.7
Total operating revenues	22,479,234	20,526,923	20,480,074	1,952,311	9.5
Expenses:					
Operating and maintenance, before depreciation and taxes:					
Water operations	3,357,811	2,986,024	3,127,529	371,787	12.5
Sewerage operations	4,497,801	4,211,339	4,012,775	286,462	6.8
Household Hazardous Waste					
Waste	102,564	91,259	89,142	11,305	12.4
Depreciation	4,583,688	4,525,694	4,465,767	57,994	1.3
General and administrative	3,548,138	3,349,656	2,901,142	198,482	5.9
Total operating expenses	16,090,002	15,163,972	14,596,355	926,030	6.1
Operating income	6,389,232	5,362,951	5,883,719	1,026,281	19.1
Nonoperating revenues	784,679	456,195	346,223	328,484	72.0
Nonoperating expenses	2,377,970	2,793,683	2,848,436	(415,713)	(14.9)
Increase in net assets, before capital contributions and transfers	4,795,941	3,025,463	3,381,506	1,770,478	58.5
Capital contributions:					
Assessments and impact fees	649,658	210,644	924,734	439,014	208.4
Donated by developers	4,412,190	1,678,139	—	2,734,051	162.9
Transfers out	(1,441,237)	(1,481,114)	(1,488,413)	(39,877)	2.7
Increase in net assets	8,416,552	3,433,132	2,817,827	4,983,420	145.2
Net assets at beginning of year	126,524,732	123,091,600	120,273,773	3,433,132	2.8
Net assets at end of year	\$ 134,941,284	126,524,732	123,091,600	8,416,552	6.7%

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Revenues from operations fall into four general categories: water service, sewerage service, household hazardous waste, and other charges. Other charges include penalty fees and charges for miscellaneous billed services. A water rate increase was implemented for service beginning after December 31, 2004. The rate increase for an average customer in each class is 10% for residential customers, 9% for commercial customers, 20% for industrial customers, and 10% for public authority customers. Additionally, wholesale rates to the Village of Pleasant Prairie, Town of Somers, and Town of Bristol increased 23%, 21%, and 15%, respectively. Public fire protection rates increased 3% for all customer classes in total. Rates for sewerage and household hazardous waste remained unchanged.

In 2005, the number of metered customers increased 1.6%. Water consumption increased 6.4% due to dry weather conditions that persisted throughout the summer months. Water Unit revenues increased \$1.7 million or 20.8%. Other revenues increased 7.7% primarily due to an increase in engineering services revenue.

In 2004, the number of metered customers increased 1.0%. Water consumption during 2004 was 3.2% less than the prior year and revenue was down 3.3%. Spring and summer rainfall was higher than normal contributing to the decline in consumption. Sewerage Unit revenues increased 1.0%, primarily due to an increase in sewerage flow from other municipalities. Other revenues increased 9.4% due to an increase in engineering services revenue.

Operating expenses increased 6.1% or \$926,030 during 2005. Water Unit operating expenses increased 12.5% or \$371,787 due to increased costs for tank painting, engineering services, and purchased fuel. Sewerage Unit operating expenses increased 6.8% or \$282,462 due to increased engineering services, utilities, and chemical costs. Administrative costs increased 5.9% or \$198,482 due to increased outside services for a sewer flow study and engineering allocations.

Operating expenses during 2004 increased 3.9% or \$567,617 overall. Water Unit operating expenses decreased 4.5% or \$141,505 due to a decrease in costs associated with street repairs. Sewerage Unit operating expenses increased \$198,564 or 4.9% due to increases in collection system expenses. Household hazardous waste expenses increased 2.4% or \$2,117 due to increased labor costs. Total depreciation expense increased 1.3% or \$59,927 due to asset additions. Administrative costs increased 15.5% or \$448,514 due to increased health insurance and employee benefit costs.

Operating income increased 19.1% or \$1,026,281 for 2005. Nonoperating revenue increased 72.0% or \$328,484 due to higher interest rates resulting in increased investment income. Nonoperating expenses decreased 14.9% or \$415,713. Interest expense and amortization of long-term debt decreased \$146,365. In addition, 2004 expenses included a loss of \$272,264 on the disposal of capital assets.

Operating income for 2004 decreased 8.9% or \$520,768 while nonoperating revenues, mainly investment income, increased 31.8% or \$109,972 due to higher interest rates. Nonoperating expenses decreased 1.9% or \$54,753. Interest expense and amortization of long-term debt decreased \$317,874. This was partially offset by a loss of \$272,264 on the disposal of capital assets acquired from the Town of Bristol.

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The increase in net assets of \$8,416,553 was \$4,983,420 higher than the previous year's increase of \$3,433,132 by 145.2%. The Water Unit portion was \$4,828,402, the Sewerage Unit portion was \$3,592,456, and a decrease of \$4,306 is attributable to the Household Hazardous Waste Unit.

In 2004, the increase in net assets of \$3,433,132 was \$615,305 higher than the previous year's increase of \$2,817,827, an increase of 21.8%. The Water Unit portion was \$301,037, the Sewerage Unit portion was \$315,039, with a decrease of \$771 attributable to the Household Hazardous Waste Unit.

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Capital Assets and Debt Administration

Capital Assets

Changes in Capital Assets

	<u>Balance Jan. 1, 2005</u>	<u>Additions/ reclass- ifications</u>	<u>Deletions/ reclass- ifications</u>	<u>Balance Dec. 31, 2005</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 1,645,473	—	—	1,645,473
Construction in progress	1,853,380	4,541,407	1,540,009	4,854,778
Total capital assets not being depreciated	<u>3,498,853</u>	<u>4,541,407</u>	<u>1,540,009</u>	<u>6,500,251</u>
Capital assets being depreciated:				
Revenue producing and service equipment:				
Wastewater collection system	1,275,158	—	82,097	1,193,061
Production pumping	4,422,098	—	—	4,422,098
Collection system pumping	8,453,132	125,939	2,360	8,576,711
Production purification	15,038,835	26,287	—	15,065,122
Wastewater treatment and disposal	21,106,204	55,326	228,188	20,933,342
Total revenue producing and service equipment	<u>50,295,427</u>	<u>207,552</u>	<u>312,645</u>	<u>50,190,334</u>
Buildings and structures:				
Production intake	3,384,069	—	—	3,384,069
Wastewater collection system	65,411,334	1,713,256	14,127	67,110,463
Production pumping	3,857,464	—	—	3,857,464
Collection system pumping	11,086,917	41,656	—	11,128,573
Production purification	8,174,758	1,887	—	8,176,645
Wastewater treatment and disposal	8,050,760	(20,429)	35,416	7,994,915
Transmission and distribution	51,500,974	3,883,242	215,103	55,169,113
General plant	1,491,730	198,599	—	1,690,329
Total buildings and structures	<u>152,958,006</u>	<u>5,818,211</u>	<u>264,646</u>	<u>158,511,571</u>
Office furnishings, shop equipment and other:				
General equipment	5,678,934	299,006	165,491	5,812,449
Engineering equipment	766,950	42,790	49,495	760,245
Total office furnishings, shop equipment and other	<u>6,445,884</u>	<u>341,796</u>	<u>214,986</u>	<u>6,572,694</u>
Total capital assets being depreciated	<u>209,699,317</u>	<u>6,367,559</u>	<u>792,277</u>	<u>215,274,599</u>
Total accumulated depreciation	<u>60,769,650</u>	<u>4,583,687</u>	<u>739,996</u>	<u>64,613,341</u>
Total capital assets being depreciated, net	<u>148,929,667</u>	<u>1,783,872</u>	<u>52,281</u>	<u>150,661,258</u>
Total capital assets, net	<u>\$ 152,428,520</u>	<u>6,325,279</u>	<u>1,592,290</u>	<u>157,161,509</u>

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The Utility had combined investment in capital assets of \$216.9 million at the end of 2005. In addition, construction in progress and leasehold improvements totaled \$4.9 million. Accumulated depreciation totaled \$64.6 million resulting in a net book value of \$157.1 million. In 2005, the Utility recorded combined depreciation expense of \$4.5 million. More detailed information about capital assets can be found in the supplemental information section report – Schedule of Capital Assets – for the Water, Sewerage, and Hazardous Waste Units as well as in note 3 to the financial statements.

In 2005, the Utility accepted and recorded the donation of water and sewer infrastructure from developers totaling \$4.2 million. Water infrastructure, including mains, hydrants, and services, totaled \$2.3 million. Sanitary sewer infrastructure for mains, receiving wells, and pumping equipment totaled \$1.9 million. This includes costs for construction inspection and as-built review prior to acceptance in addition to contractor's construction costs. The following subdivisions or areas were included:

Subdivision/Area	Water	Sewer	Total
Peterson's Golden Meadows	\$ 1,131,934	807,467	1,939,401
Leona's Rolling Meadows	715,967	851,023	1,566,990
Business Park of Kenosha Phase 2	512,802	222,359	735,161
	<u>\$ 2,360,703</u>	<u>1,880,849</u>	<u>4,241,552</u>

Other significant additions include water main projects completed by the Utility during the year of \$942,658.

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Long-term Debt

At December 31, 2005, the Utility had \$47.1 million in long-term debt outstanding. Of this amount, approximately \$4.2 million is due within one year (see note 4 to the financial statements regarding the classification of revenue bond debt). Outstanding debt decreased \$3.9 million, or 7.7%, due to scheduled debt payments. Detailed debt schedules can be found in the supplemental information section as well as note 4 to the financial statements.

At December 31, 2004, the Utility had \$51.0 million in long-term debt outstanding. Of this amount, approximately \$4.1 million is due within one year. Outstanding debt decreased \$3.9 million, or 7.0%, due to scheduled debt payments. Detailed debt schedules can be found in the supplemental information section as well as note 4 to the financial statements.

Long-term Debt Activity

	<u>Balance</u> <u>Jan. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2005</u>	<u>Due within</u> <u>one year</u>
Bonds, loans, and advances payable:					
Clean Water Fund loans	\$ 16,340,623	—	1,652,386	14,688,237	1,717,950
Revenue bonds	34,405,000	—	2,370,000	32,035,000	2,455,000
Less bond discounts and advance refunding losses	(611,262)	—	(126,122)	(485,140)	—
Advance from Municipality	945,537	—	38,800	906,737	40,926
	<u>\$ 51,079,898</u>	<u>—</u>	<u>3,935,064</u>	<u>47,144,834</u>	<u>4,213,876</u>
	<u>Balance</u> <u>Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2004</u>	<u>Due within</u> <u>one year</u>
Bonds, loans, and advances payable:					
Clean Water Fund loans	\$ 17,929,951	—	1,589,328	16,340,623	1,652,386
Revenue bonds	36,615,000	—	2,210,000	34,405,000	2,370,000
Less bond discounts and advance refunding losses	(746,408)	—	(135,146)	(611,262)	—
Advance from Municipality	982,210	—	36,673	945,537	38,799
	<u>\$ 54,780,753</u>	<u>—</u>	<u>3,700,855</u>	<u>51,079,898</u>	<u>4,061,185</u>

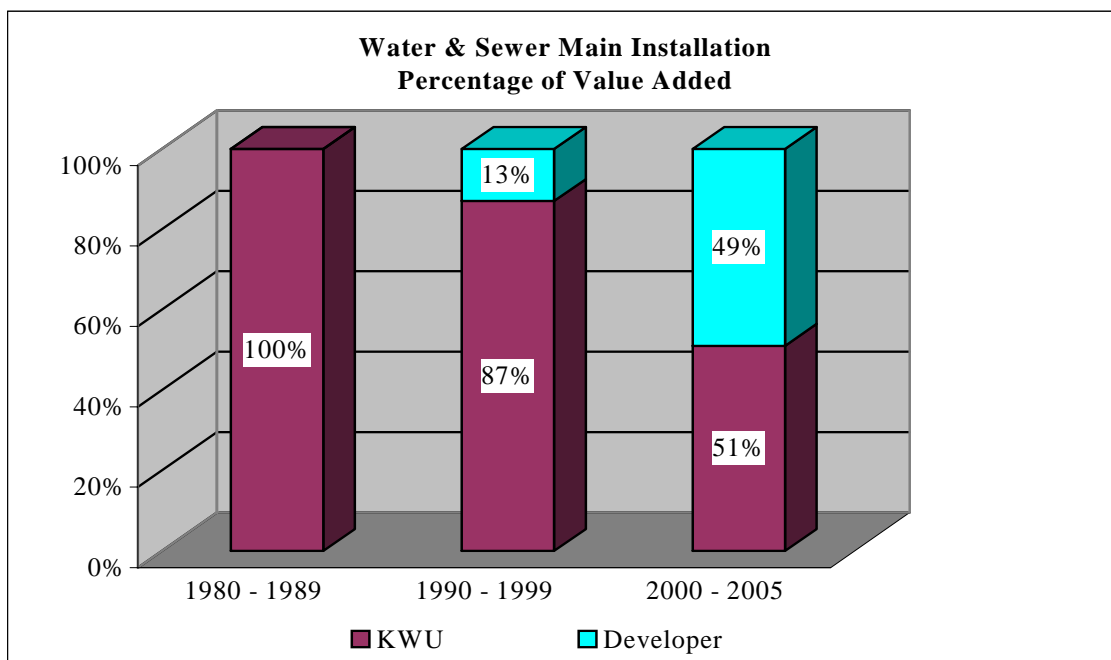
CITY OF KENOSHA, WISCONSIN
WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Management's Discussion and Analysis (Unaudited)
 December 31, 2005 and 2004

Economic Factors and the Utility's Future

The City of Kenosha has implemented the requirement that new development within the City must occur under the provisions of a Developer's Agreement. The first Developer's Agreement was issued for the White Caps Subdivision in 1991. This Developer's Agreement ultimately covered twelve phases of the White Caps build-out. Under provisions of a Developer's Agreement all infrastructure, including sanitary sewer and water, is installed by a developer at the developer's expense and turned over to the City of Kenosha and the Kenosha Water Utility after final inspection and acceptance.

Since the inception of the Developer's Agreement Program, the Kenosha Water Utility has accepted 133,795 feet (25.3 miles) of sanitary sewer main and 148,972 feet (28.2 miles) of water main. Prior to the implementation of this program, the Utility was responsible for the design and installation of all sewer and water infrastructure. The cost of these installations was recovered through assessments to benefited property owners. The present policy requiring all new sewer and water serving new developments to be installed by the developer has freed up Utility resources since many assessments were repaid over a ten year period or were deferred pending the actual development of the area or rezoning of the property. This policy has also allowed the Utility to focus its resources toward water main replacement and sewer rehab programs. The Utility retains the responsibility for the design and installation of major water transmission mains, pump stations, interceptor sewers, and lift stations.

The chart below shows the increasing share of infrastructure being installed by developers and turned over to the Kenosha Water Utility.



CITY OF KENOSHA, WISCONSIN
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Management's Discussion and Analysis (Unaudited)
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Contacting the Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Utility's finances and to demonstrate the Utility's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Kenosha Water Utility, Director of Business Services, 4401 Green Bay Road, Kenosha, Wisconsin 53144.

**CITY OF KENOSHA, WISCONSIN
WATER UTILITY**
(An Enterprise Fund of the City of Kenosha)

Statements of Net Assets
December 31, 2005 and 2004

Assets	2005	2004
Current assets:		
Cash and cash equivalents	\$ 5,363,056	7,650,432
Investments	1,563,792	—
Accounts receivable	3,469,711	3,188,541
Unbilled revenue	2,169,862	2,132,920
Inventories	388,675	394,017
Other current assets	228,948	181,171
Total current assets	13,184,044	13,547,081
Noncurrent assets:		
Investments	3,159,202	3,041,534
Restricted investments	11,043,979	11,573,068
Other assets	1,008,005	1,135,387
Capital assets:		
Capital assets not being depreciated:		
Land and land improvements	1,645,473	1,645,473
Construction in progress	4,854,778	1,853,380
Capital assets being depreciated:		
Revenue producing and service equipment	50,190,334	50,295,427
Buildings and structures	158,511,571	152,958,006
Office furnishings, shop equipment, and other	6,572,694	6,445,884
Less accumulated depreciation	(64,613,341)	(60,769,650)
Total capital assets, net of accumulated depreciation	157,161,509	152,428,520
Total noncurrent assets	172,372,695	168,178,509
Total assets	\$ 185,556,739	181,725,590
Liabilities		
Current liabilities:		
Accounts payable	\$ 729,675	1,136,897
Accrued liabilities	329,003	355,213
Accrued property taxes	1,473,743	1,514,650
Current portion of long-term obligations	4,172,950	4,022,386
Due to City of Kenosha	483,588	687,700
Other deferred credits	7,443	24,727
Total current liabilities	7,196,402	7,741,573
Noncurrent liabilities:		
Long-term portion of accrued compensated absences	447,876	398,219
Worker's compensation accrued liability	40,217	42,351
Advance from City of Kenosha	865,813	906,739
Revenue bonds payable	29,094,860	31,423,739
Clean Water Fund loans	12,970,287	14,688,237
Total noncurrent liabilities	43,419,053	47,459,285
Total liabilities	\$ 50,615,455	55,200,858
Net Assets		
Invested in capital assets, net of related debt	\$ 111,035,801	102,427,573
Restricted for debt service	11,043,979	11,573,068
Unrestricted	12,861,504	12,524,091
Total net assets	\$ 134,941,284	126,524,732

See accompanying notes to basic financial statements.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Statements of Revenues, Expenses, and Changes in Fund Net Assets
Years ended December 31, 2005 and 2004

	2005	2004
Operating revenues:		
Charges for services	\$ 19,539,367	17,796,750
Miscellaneous	2,939,867	2,730,173
Total operating revenues	22,479,234	20,526,923
Operating expenses:		
General and administrative	3,548,138	3,349,656
Operations and maintenance	7,958,176	7,288,622
Depreciation	4,583,688	4,525,694
Total operating expenses	16,090,002	15,163,972
Operating income	6,389,232	5,362,951
Nonoperating revenues (expenses):		
Investment income	784,679	436,679
Interest expense	(2,253,461)	(2,399,826)
Federal and state subsidies	—	19,516
Loss on disposal of capital assets	—	(272,264)
Miscellaneous	(124,509)	(121,593)
Total nonoperating revenue (expenses), net	(1,593,291)	(2,337,488)
Increase in net assets before capital contributions and transfers	4,795,941	3,025,463
Capital contributions	5,061,848	1,888,783
Transfers out	(1,441,237)	(1,481,114)
Increase in net assets	8,416,552	3,433,132
Net assets at beginning of year	126,524,732	123,091,600
Net assets at end of year	\$ 134,941,284	126,524,732

See accompanying notes to basic financial statements.

**CITY OF KENOSHA, WISCONSIN
WATER UTILITY**
(An Enterprise Fund of the City of Kenosha)
Statements of Cash Flows
Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from customers	\$ 22,240,727	20,773,665
Payments to suppliers	(8,581,452)	(6,123,490)
Payments to employees	(3,500,615)	(3,303,958)
Net cash provided by operating activities	<u>10,158,660</u>	<u>11,346,217</u>
Cash flows from noncapital financing activities:		
Transfer to City of Kenosha	(1,482,144)	(1,488,049)
Subsidies from federal grant	—	19,516
Net cash used in noncapital financing activities	<u>(1,482,144)</u>	<u>(1,468,533)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,307,105)	(4,904,012)
Disposal of capital assets	52,276	81,084
Principal paid on capital debt	(3,937,191)	(3,702,980)
Interest paid on capital debt	(2,279,671)	(2,484,627)
Net cash used in capital and related financing activities	<u>(10,471,691)</u>	<u>(11,010,535)</u>
Cash flows from investing activities:		
Purchase of investments	(1,152,371)	(14,614,602)
Interest and dividends received	660,170	315,086
Net cash used in investing activities	<u>(492,201)</u>	<u>(14,299,516)</u>
Net decrease in cash and cash equivalents	(2,287,376)	(15,432,367)
Cash and cash equivalents – beginning of year	<u>7,650,432</u>	<u>23,082,799</u>
Cash and cash equivalents – end of year	<u>\$ 5,363,056</u>	<u>7,650,432</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,389,232	5,362,951
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,583,688	4,525,694
Changes in assets and liabilities:		
Accounts receivable	(281,170)	304,067
Unbilled revenues	(36,942)	(58,209)
Inventories	5,342	20,719
Other current assets	(47,777)	(74,601)
Other assets	127,382	75,485
Accounts payable	(407,222)	683,191
Compensated absences	49,657	3,347
Worker's compensation accrued liability	(2,134)	42,351
Payable to City of Kenosha	(204,112)	436,495
Other deferred credits	(17,284)	24,727
Total adjustments	<u>3,769,428</u>	<u>5,983,266</u>
Net cash provided by operating activities	<u>\$ 10,158,660</u>	<u>11,346,217</u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from developers	\$ 5,061,848	1,888,783

See accompanying notes to basic financial statements.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(1) Summary of Significant Accounting Policies

(a) Nature of Business

The City of Kenosha, Wisconsin Water Utility (Utility) is an enterprise fund of the City of Kenosha, Wisconsin (City) and is comprised of three units: Water, Sewerage, and Household Hazardous Waste. The Utility is governed by the City of Kenosha Board of Water Commissioners (Board) consisting of six members appointed by the Mayor of Kenosha.

These financial statements present only the City of Kenosha, Wisconsin Water Utility and are not intended to present the financial position and results of operations of the City of Kenosha, Wisconsin in conformity with U.S. generally accepted accounting principles.

The Water Unit operates, maintains, and constructs the City's water system. Services are financed primarily by user charges. The Water Unit charges rates and operates under service rules established by the Public Service Commission of Wisconsin (PSCW). Accounting records of the Water Unit are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW.

The Sewerage Unit operates, maintains, and constructs the City's sewage collection and treatment system. Services are financed primarily by user charges. Service rates and rules are established by the Board and approved by the Wisconsin Department of Natural Resources.

The Household Hazardous Waste Unit collects, stores, and disposes of residential household hazardous waste. This unit began operation on May 1, 1992, with services financed primarily by user charges. Service rates and rules are established by the Board.

(b) Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting policies of the Utility conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental entities. The accounts of the Utility, which are organized as an enterprise fund, are used to account for the Utility's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Utility maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Utility receives value without directly giving equal value in return, include grants and contributions. On an accrual basis, revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the Utility on a reimbursement basis.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the

CITY OF KENOSHA, WISCONSIN
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Notes to Basic Financial Statements
December 31, 2005 and 2004

extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Utility also has the option of following subsequent private-sector guidance, subject to this same limitation. The Utility has elected not to follow subsequent private-sector guidance as it relates to its operations.

(c) Cash and Cash Equivalents

Cash and cash equivalents, which consist of certificates of deposit, are considered to have original maturities of three months or less from the date of purchase.

(d) Receivables/Payables

Transactions between the Utility and other funds of the City that are representative of lending/borrowing arrangements outstanding at year end are referred to as receivable/payable to municipality. All other outstanding balances between the Utility and other funds of the City are reported as due to/from other funds.

The Utility has the right under Wisconsin statutes to place special assessments and delinquent water and sewerage bills on the tax roll for collection. As such, no allowance for uncollectible customer accounts is considered necessary.

(e) Materials and Supplies

Materials and supplies are generally used for construction, operation, and maintenance work, and are not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction and expense when used.

(f) Restricted Assets

Certain proceeds of the Utility's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

(g) Investments

Investment of Utility funds is restricted by Wisconsin Statutes to:

- Time deposits in any credit union, bank, savings bank, trust company, or savings and loan association maturing in three years or less.
- Bonds or securities of any county, city, drainage district, VTAE district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district, or the University of Wisconsin Hospitals and Clinics Authority.
- Bonds or securities issued or guaranteed by the federal government.
- The Wisconsin Local Government Investment Pool.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

- Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- Repurchase agreements with public depositories, with certain conditions.

Investments are reported at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to report investments at fair value are recorded in the operating statement as increases or decreases in investment income.

(h) Capital Assets

Capital assets are defined by the Utility as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of a year. Capital assets are recorded at cost or the fair market value at the time of contribution to the Utility. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest incurred during the construction phase is reflected in the capitalized value of utility plant constructed, net of interest earned on the invested proceeds over the same period. Capital assets are depreciated using the straight-line method over the following useful lives:

	Useful life (years)
Water unit:	
Production intake	50-75
Production pumping	25-50
Production purification	31-50
Transmission and distribution	20-108
General equipment	7-17
Sewerage unit:	
Collection system	25-100
Collection system pumping	19-40
Treatment and disposal	23-43
Engineering equipment	7-17
General equipment	7-40
Household hazardous waste unit:	
Structures and improvements	25
Equipment	12

CITY OF KENOSHA, WISCONSIN
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Notes to Basic Financial Statements

December 31, 2005 and 2004

(i) WRS Deferred Charge

In 1999, the City issued general obligation refunding bonds to pay off its Wisconsin Retirement System unfunded pension liability. The Utility recorded its share of this issue as an advance from the City (see note 5) and established a corresponding asset entitled "WRS deferred charge." The WRS deferred charge is being amortized over 20 years using a factor equal to expected wage increases.

(j) Compensated Absences

Vacation

The Utility compensates all employees upon termination for unused vacation earned in the current year. No liability for unpaid vacation benefits has been recorded on the balance sheet as vacations are forfeited if not used in the calendar year earned.

Sick Leave

Utility employees are entitled to sick leave at a rate of one day per month of full-time service. Sick leave is paid upon normal retirement or disability up to a maximum of 66 days. Terminated employees are not compensated for unused sick leave. The balance sheets of the Water and Sewerage Units contain a liability for estimated accrued sick leave and associated fringe benefits.

(k) Long-term Obligations

Long-term debt and other obligations are reported as Utility liabilities. Bond liabilities are reported net of any premium or discount. Issuance costs are reported as deferred charges and amortized over the life of the bonds using the effective interest method.

(l) Charges for Services

Billings for water and sewerage services are issued monthly to high-consumption users and bimonthly to all other customers. Hazardous waste charges are billed bimonthly to all residential customers. Revenues are recognized on the accrual basis and include amounts for service rendered but not billed.

(m) Classification of Revenues

The Utility has classified its revenues as either operating or nonoperating. Operating revenue includes activities that have the characteristics of exchange transactions, including billing for water and sewerage services. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as grants and contributions. Investment income is also classified as nonoperating.

(n) Taxes

The Water Unit records an annual payment in lieu of taxes (PILOT) expense based on the value of its plant and materials and supplies inventory using the current assessment ratio and local and school

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
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Notes to Basic Financial Statements
December 31, 2005 and 2004

portion of the mill rate. The computation for this expense is shown in a supplemental schedule. Municipal utilities are exempt from federal and state income taxes.

(o) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

(p) New Accounting Pronouncements

The Utility implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, during the year ended December 31, 2005. The implementation of this standard resulted in specific disclosures for credit risk, concentration of credit risk, interest rate risk, and foreign currency risk of deposits and investments.

The Utility implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, during the year ended December 31, 2005. This Statement establishes accounting and financial reporting standards for impairment of capital assets. No changes were made to the reported value of capital assets based on the Utility's implementation of this pronouncement.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers who participate in a defined benefit "other post-employment benefit plan." The Utility will implement this Statement No. 45 beginning with the year ending December 31, 2007.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies the definition of legally enforceable legislation. The Utility will implement Statement No. 46 beginning with the year ended December 31, 2006.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(2) Cash and Investments

The Utility, as an enterprise fund of the City, maintains separate cash and investment accounts at the same financial institutions utilized by the City. A summary of cash and investments as of December 31, 2005 and 2004 are as follows:

	2005	2004
Petty cash	\$ 1,300	1,300
Demand deposits	1,861,756	1,718,736
Certificates of deposit	19,266,973	20,544,998
Total	\$ 21,130,029	22,265,034

Investment Policy

The Utility's investments are made in accordance with the City of Kenosha's investment policies and the Wisconsin Statutes. A summary of authorized investments is included in note 1.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Utility's deposits may not be returned. Cash and investments in each bank are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest-bearing accounts and \$100,000 for non-interest bearing accounts. Deposits and investments are also insured for \$400,000 by the State Deposit Guarantee Fund (SDGF). The City of Kenosha's investment policies require collateralization of deposits at financial institutions when the total amount of such deposits exceeds the combined insured limit of \$500,000. Federal depository insurance and the State of Wisconsin Guarantee Fund insurance apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the Utility alone. The City's bank balances of \$4,206,298 and \$3,832,472 at December 31, 2005 and 2004, respectively, were uninsured and uncollateralized.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. As of December 31, 2005 and 2004, the Utility's investments were certificates of deposit with maturities of less than one year.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(3) Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2005</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 1,645,473	—	—	1,645,473
Construction in progress	1,853,380	4,541,407	1,540,009	4,854,778
Total capital assets not being depreciated	<u>3,498,853</u>	<u>4,541,407</u>	<u>1,540,009</u>	<u>6,500,251</u>
Capital assets being depreciated:				
Revenue producing and service equipment	50,295,427	207,552	312,645	50,190,334
Buildings and structures	152,958,006	5,818,207	264,642	158,511,571
Office furnishings, shop equipment, and other	6,445,884	341,796	214,986	6,572,694
Total capital assets being depreciated	<u>209,699,317</u>	<u>6,367,555</u>	<u>792,273</u>	<u>215,274,599</u>
Less accumulated depreciation:				
Revenue producing and service equipment	25,569,118	1,900,262	312,645	27,156,735
Buildings and structures	31,719,729	2,295,887	249,753	33,765,863
Office furnishings, shop equipment, and other	3,480,803	387,538	177,598	3,690,743
Total accumulated depreciation	<u>60,769,650</u>	<u>4,583,687</u>	<u>739,996</u>	<u>64,613,341</u>
Total capital assets being depreciated, net	<u>148,929,667</u>	<u>1,783,868</u>	<u>52,277</u>	<u>150,661,258</u>
Total capital assets, net	<u>\$ 152,428,520</u>	<u>6,325,275</u>	<u>1,592,286</u>	<u>157,161,509</u>

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2004</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 1,615,474	29,999	—	1,645,473
Construction in progress	<u>1,128,912</u>	<u>4,587,012</u>	<u>3,862,544</u>	<u>1,853,380</u>
Total capital assets not being depreciated	<u>2,744,386</u>	<u>4,617,011</u>	<u>3,862,544</u>	<u>3,498,853</u>
Capital assets being depreciated:				
Revenue producing and service equipment	49,917,044	420,157	41,774	50,295,427
Buildings and structures	148,098,985	5,155,147	296,126	152,958,006
Office furnishings, shop equipment, and other	<u>6,444,568</u>	<u>190,760</u>	<u>189,444</u>	<u>6,445,884</u>
Total capital assets being depreciated	<u>204,460,597</u>	<u>5,766,064</u>	<u>527,344</u>	<u>209,699,317</u>
Less accumulated depreciation:				
Revenue producing and service equipment	23,696,008	1,896,219	23,109	25,569,118
Buildings and structures	29,752,989	2,234,051	267,311	31,719,729
Office furnishings, shop equipment, and other	<u>3,241,219</u>	<u>395,424</u>	<u>155,840</u>	<u>3,480,803</u>
Total accumulated depreciation	<u>56,690,216</u>	<u>4,525,694</u>	<u>446,260</u>	<u>60,769,650</u>
Total capital assets being depreciated, net	<u>147,770,381</u>	<u>1,240,370</u>	<u>81,084</u>	<u>148,929,667</u>
Total capital assets, net	<u>\$ 150,514,767</u>	<u>5,857,381</u>	<u>3,943,628</u>	<u>152,428,520</u>

**CITY OF KENOSHA, WISCONSIN
WATER UTILITY**
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(4) Long-term Debt

Long-term debt activity for the year ended December 31, 2005 was as follows:

Issue	Interest rate	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005	Due within one year
State of Wisconsin Clean Water Loan Funds:						
Series 1992	3.99%	\$ 12,084,607	—	1,311,610	10,772,997	1,364,048
Series 1993	4.02%	2,911,738	—	274,970	2,636,768	286,010
Series 2000	3.17%	1,344,278	—	65,806	1,278,472	67,892
Revenue Bonds:						
Series 1998	4.50-5.25%	26,705,000	—	1,370,000	25,335,000	1,430,000
Series 2003	1.60-4.55%	7,700,000	—	1,000,000	6,700,000	1,025,000
Less unamortized discount and refunding bond losses		(611,261)	—	(126,121)	(485,140)	—
Advance from Municipality: 1999 agreement	7.03%	945,537	—	38,799	906,738	40,925
Total		<u>\$ 51,079,899</u>	<u>—</u>	<u>3,935,064</u>	<u>47,144,835</u>	<u>4,213,875</u>

Long-term debt activity for the year ended December 31, 2004 was as follows:

Issue	Interest rate	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004	Due within one year
State of Wisconsin Clean Water Loan Funds:						
Series 1992	3.99%	\$ 13,345,794	—	1,261,187	12,084,607	1,311,610
Series 1993	4.02%	3,176,094	—	264,356	2,911,738	274,970
Series 2000	3.17%	1,408,063	—	63,785	1,344,278	65,806
Revenue Bonds:						
Series 1998	4.50-5.25%	28,015,000	—	1,310,000	26,705,000	1,370,000
Series 1993	3.90-6.75%	800,000	—	800,000	—	—
Series 2003	1.60-4.55%	7,800,000	—	100,000	7,700,000	1,000,000
Less unamortized discount and refunding bond losses		(746,408)	—	(135,147)	(611,261)	—
Advance from Municipality: 1999 agreement	7.03%	982,210	—	36,673	945,537	38,799
Total		<u>\$ 54,780,753</u>	<u>—</u>	<u>3,700,854</u>	<u>51,079,899</u>	<u>4,061,185</u>

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(a) *State of Wisconsin Department of Natural Resources Clean Water Fund Loan (CWFL)*

Issuance of Clean Water Fund loans are authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Sewerage Unit Clean Water Fund debt is payable from revenues of the sewerage system; however, upon default, the City's transportation aids or shared revenue may be reduced. The municipal ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established:

- Renewal and replacement – Utilities receiving federal or state construction grant funds from the EPA or the Wisconsin Fund are required by Wis. Admin. Code NR 128.13 and CFR 35.2005, Federal Register, to establish and fund a "replacement account" for mechanical equipment. Each grantee must review its facility and estimate its future expenditures for equipment replacement that will be necessary to maintain the facility's capacity throughout its design life of 20 years. Withdrawals are made as major mechanical equipment is repaired or replaced.
- Debt service account – Used to deposit monthly one-sixth and one-twelfth of the next installment of the 1992, 1993, and 2000 series loan interest and principal, respectively, due on the succeeding payment date until the total amount due is on deposit.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(b) Revenue Bonds

Revenue bond debt is payable from revenues derived by the Utility. Issuance of the revenue bonds is authorized by municipal ordinances prepared pursuant to Section 66.0621 of the Wisconsin Statutes. Such ordinances provide for the establishment of separate accounts into which cash receipts are allocated. The following accounts have been established for the Water and Sewerage units:

- | | |
|----------------------------|---|
| Special redemption account | – Used to deposit monthly one-sixth and one-twelfth of the next installment of bond interest and principal, respectively, due on the succeeding payment date until the total amount amount due is on deposit. |
| Reserve account | – Used to make interest or principal payments when amounts are not available in the special redemption account, remedy deficiencies in any of the other accounts, or retire bonds in advance of maturity. |
| Renewal and replacement | – Used for the payment of repairs, replacements, new construction, and expansion on or additions to the system. |
| Tax equivalent account | – Used to fund the annual tax equivalent paid to the City. |
| Depreciation account | – Used for the payment of extraordinary repairs or replacements and to remedy any deficiencies in the special redemption account. |

(c) Debt Covenant Violation

Per the bond indentures for the Series 1998 and Series 2003 revenue bonds, the Utility is required to have its books and records audited by an independent accountant within 120 days of year end. The Utility did not meet this deadline for the year ended December 31, 2005. The remedy provisions in the resolutions state that bondholders can enforce their rights by mandamus or other suit or action against the City or the Board or their officers or agents.

(d) Advance from Municipality

In 1999, the City issued general obligation refunding bonds to pay off its Wisconsin Retirement System unfunded pension liability. The Utility recorded its share of this issue, and makes principal and interest payments to the City.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(e) *Principal and Interest Payments*

Long-term debt principal and interest requirements as of December 31, 2005 are as follows:

	Principal			Interest		
	Water unit	Sewerage unit	Total	Water unit	Sewerage unit	Total
2006	\$ 1,450,291	2,763,584	4,213,875	1,311,780	812,767	2,124,547
2007	1,521,608	2,858,093	4,379,701	1,243,963	712,038	1,956,001
2008	1,597,926	2,980,313	4,578,239	1,163,798	601,696	1,765,494
2009	1,684,507	3,105,616	4,790,123	1,079,589	481,337	1,560,926
2010	1,766,088	3,233,850	4,999,938	999,058	352,106	1,351,164
2011-2015	10,229,956	6,232,740	16,462,696	3,586,578	436,495	4,023,073
2016-2020	7,534,185	671,218	8,205,403	803,538	66,829	870,367
	<u>\$ 25,784,561</u>	<u>21,845,414</u>	<u>47,629,975</u>	<u>10,188,304</u>	<u>3,463,268</u>	<u>13,651,572</u>

(5) **Employees' Retirement System**

All eligible Utility employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category are required by statute to contribute 6.2% for 2005 (5.8% for 2004) of their salary to the plan. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

Total Utility payroll, covered payroll, and contributions for 2004, 2003, and 2002 are as follows:

	Year ended December 31		
	2005	2004	2003
Total utility payroll	\$ 4,158,550	3,892,594	3,807,099
Total covered employee payroll	4,134,114	3,775,708	3,783,393
Total required contributions	421,785	370,024	355,880
Total required contributions (%)	10.2%	9.8%	9.4%

Details of the plan are disclosed in the financial statements of the City.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(6) Risk Management

The Utility is exposed to various risks of loss related to theft of, damage to, or destruction of assets, torts, errors and omissions, workers' compensation, and health care of its employees. The Utility purchases commercial insurance to insure its assets and protect against liability claims. Settled liability and property damage claims have not exceeded the commercial insurance coverage in the last five years. The Utility, in conjunction with the City, is self insured for workers' compensation and health insurance. The City purchases stop loss insurance to limit risk exposures. For liability and errors and omissions insurance, the City, including the Utility, is a participant in the Wisconsin Municipal Insurance Commission (WMIC).

The WMIC is an intergovernmental cooperation commission created by contract under Section 66.0301 of the Wisconsin Statutes in August 1987 for the purpose of facilitating the organization, establishment, and capitalization of the Cities and Villages Mutual Insurance Company (CVMIC) and has approximately 40 municipalities as members. CVMIC is a municipal mutual insurance company established on September 19, 1987 under Section 611.23 of the Wisconsin Statutes. CVMIC provides liability insurance coverage to the municipalities which comprise the membership of WMIC.

For liability and errors and omissions insurance claims, the uninsured risk of loss is \$125,000 per incident and \$500,000 in the aggregate for a policy year. Settled claims have not exceeded the CVMIC coverage in any of the past five years.

The participation of the City, and its related funding for capitalization, is accounted in an internal service fund in the general purpose financial statements of the City. See the City's general purpose financial statements for additional information on the City's participation in the public entity risk pools as a whole. Separately issued financial statements for CVMIC and WMIC may be obtained from CVMIC at 1250 South Sunnyslope Road, Brookfield, WI 53005-7025.

(7) Basis for Existing Rates

(a) Water Unit

Rates were approved by the PSCW on December 14, 2004, and placed into effect by the Utility for service after December 31, 2004. Rates were designed to provide a 6.00% return on rate base, based on Utility plant in service and operating revenue and expenses at that time.

(b) Sewerage Unit

Sewerage rates were approved by the Board and placed into effect on January 1, 1995.

(c) Household Hazardous Waste Unit

Rates were approved by the Board on August 13, 1991 and placed into effect May 1, 1992.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Notes to Basic Financial Statements

December 31, 2005 and 2004

(8) Commitments and Contingencies

At December 31, 2005, the Utility had outstanding purchase commitments for contracts of approximately \$813,682 of which approximately \$600,182 is for water unit structures and improvements, \$104,847 is for water main construction, \$106,988 is for sewerage unit structures and improvements, and \$1,665 is for sewerage collection system construction.

From time to time, the Utility is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Utility's attorney that the likelihood is remote that any such claim or proceedings will have a material adverse effect on the Utility's financial position or results of operations.

(9) Subsequent Events

On April 3, 2006, a contract was awarded to Riley Construction Company, Inc. for replacement of laboratory furnishings and equipment at the Wastewater Treatment Plant in the amount of \$134,900.

SUPPLEMENTAL SCHEDULES

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Combining Schedule of Net Assets

December 31, 2005

Assets	Water unit	Sewerage unit	Household hazardous waste unit	Total
Current assets:				
Cash and cash equivalents	\$ 1,175,368	4,094,721	92,967	5,363,056
Investments	—	1,563,792	—	1,563,792
Accounts receivable	1,557,664	1,885,237	26,810	3,469,711
Unbilled revenue	1,201,943	955,732	12,187	2,169,862
Inventories	354,374	34,301	—	388,675
Other current assets	87,685	141,263	—	228,948
Total current assets	<u>4,377,034</u>	<u>8,675,046</u>	<u>131,964</u>	<u>13,184,044</u>
Noncurrent assets:				
Investments	—	3,159,202	—	3,159,202
Restricted investments	4,582,880	6,461,099	—	11,043,979
Other assets	551,457	456,548	—	1,008,005
Capital assets:				
Capital assets not being depreciated:				
Land and land improvements	379,257	1,266,216	—	1,645,473
Construction in progress	3,329,032	1,525,746	—	4,854,778
Capital assets being depreciated:				
Revenue producing and service equipment	19,487,220	30,703,114	—	50,190,334
Buildings and structures	70,587,291	87,876,086	48,194	158,511,571
Office furnishings, shop equipment, and other	2,386,805	4,184,477	1,412	6,572,694
Less accumulated depreciation	<u>(19,128,320)</u>	<u>(45,462,297)</u>	<u>(22,724)</u>	<u>(64,613,341)</u>
Total capital assets, net of accumulated depreciation	<u>77,041,285</u>	<u>80,093,342</u>	<u>26,882</u>	<u>157,161,509</u>
Total noncurrent assets	<u>82,175,622</u>	<u>90,170,191</u>	<u>26,882</u>	<u>172,372,695</u>
Total assets	<u>\$ 86,552,656</u>	<u>98,845,237</u>	<u>158,846</u>	<u>185,556,739</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 457,263	263,753	8,659	729,675
Accrued liabilities	106,778	222,225	—	329,003
Accrued property taxes	1,473,743	—	—	1,473,743
Current portion of long-term obligations	1,430,000	2,742,950	—	4,172,950
Due to City of Kenosha	244,744	238,596	248	483,588
Other deferred credits	7,443	—	—	7,443
Total current liabilities	<u>3,719,971</u>	<u>3,467,524</u>	<u>8,907</u>	<u>7,196,402</u>
Noncurrent liabilities:				
Long-term portion of accrued compensated absences	241,265	206,611	—	447,876
Worker's compensation accrued liability	16,087	24,130	—	40,217
Advance from City of Kenosha	429,270	436,543	—	865,813
Revenue bonds payable	23,636,465	5,458,395	—	29,094,860
Clean Water Fund loan	—	12,970,287	—	12,970,287
Total noncurrent liabilities	<u>24,323,087</u>	<u>19,095,966</u>	<u>—</u>	<u>43,419,053</u>
Total liabilities	<u>\$ 28,043,058</u>	<u>22,563,490</u>	<u>8,907</u>	<u>50,615,455</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 52,066,122	58,942,797	26,882	111,035,801
Restricted for debt service	4,582,880	6,461,099	—	11,043,979
Unrestricted	1,860,596	10,877,851	123,057	12,861,504
Total net assets	<u>\$ 58,509,598</u>	<u>76,281,747</u>	<u>149,939</u>	<u>134,941,284</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha)

Combining Schedule of Revenues, Expenses, and Changes in Fund Net Assets

Year ended December 31, 2005

	Water unit	Sewerage unit	Household hazardous waste unit	Total
Operating revenues:				
Charges for services	\$ 9,980,429	9,463,720	95,218	19,539,367
Miscellaneous	1,433,151	1,504,367	2,349	2,939,867
Total operating revenues	<u>11,413,580</u>	<u>10,968,087</u>	<u>97,567</u>	<u>22,479,234</u>
Operating expenses:				
General and administrative	1,317,224	2,230,914	—	3,548,138
Operations and maintenance	3,357,811	4,497,801	102,564	7,958,176
Depreciation	1,903,539	2,678,104	2,045	4,583,688
Total operating expenses	<u>6,578,574</u>	<u>9,406,819</u>	<u>104,609</u>	<u>16,090,002</u>
Operating income	<u>4,835,006</u>	<u>1,561,268</u>	<u>(7,042)</u>	<u>6,389,232</u>
Nonoperating revenues (expenses):				
Investment income	282,019	499,924	2,736	784,679
Interest expense	(1,370,481)	(882,980)	—	(2,253,461)
Miscellaneous	(53,534)	(70,975)	—	(124,509)
Total nonoperating revenue (expenses), net	<u>(1,141,996)</u>	<u>(454,031)</u>	<u>2,736</u>	<u>(1,593,291)</u>
Increase in net assets before capital contributions and transfers	3,693,010	1,107,237	(4,306)	4,795,941
Capital contributions	2,576,629	2,485,219	—	5,061,848
Transfers out	(1,441,237)	—	—	(1,441,237)
Increase in net assets	<u>4,828,402</u>	<u>3,592,456</u>	<u>(4,306)</u>	<u>8,416,552</u>
Net assets at beginning of year	<u>53,681,196</u>	<u>72,689,291</u>	<u>154,245</u>	<u>126,524,732</u>
Net assets at end of year	<u>\$ 58,509,598</u>	<u>76,281,747</u>	<u>149,939</u>	<u>134,941,284</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha)
Schedule of Capital Assets – Water Unit
Year ended December 31, 2005

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land and land improvements	\$ 379,257	—	—	379,257
Construction in progress	1,168,013	3,478,147	1,317,128	3,329,032
Total capital assets not being depreciated	<u>1,547,270</u>	<u>3,478,147</u>	<u>1,317,128</u>	<u>3,708,289</u>
Capital assets being depreciated:				
Revenue producing and service equipment	19,460,933	26,287	—	19,487,220
Buildings and structures	66,917,268	3,885,126	215,103	70,587,291
Office furnishings, shop equipment, and other	2,381,391	121,809	116,395	2,386,805
Total capital assets being depreciated	<u>88,759,592</u>	<u>4,033,222</u>	<u>331,498</u>	<u>92,461,316</u>
Less accumulated depreciation:				
Revenue producing and service equipment	4,273,700	638,867	—	4,912,567
Buildings and structures	11,713,562	1,087,432	200,214	12,600,780
Office furnishings, shop equipment, and other	1,537,946	177,240	100,213	1,614,973
Total accumulated depreciation	<u>17,525,208</u>	<u>1,903,539</u>	<u>300,427</u>	<u>19,128,320</u>
Total capital assets being depreciated, net	<u>71,234,384</u>	<u>2,129,683</u>	<u>31,071</u>	<u>73,332,996</u>
Total capital assets, net	<u>\$ 72,781,654</u>	<u>5,607,830</u>	<u>1,348,199</u>	<u>77,041,285</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Debt Repayment Schedule

Series 1998 – Water System Revenue Bonds

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>December 1</u>	<u>June 1</u>	<u>December 1</u>		
2006	\$ 1,430,000	640,646	640,646		2,711,292
2007	1,500,000	607,398	607,398		2,714,796
2008	1,575,000	568,024	568,024		2,711,048
2009	1,660,000	526,680	526,680		2,713,360
2010	1,740,000	487,255	487,255		2,714,510
2011	1,825,000	445,060	445,060		2,715,120
2012	1,910,000	400,348	400,348		2,710,696
2013	2,005,000	352,598	352,598		2,710,196
2014	2,110,000	301,470	301,470		2,712,940
2015	2,220,000	247,665	247,665		2,715,330
2016	2,330,000	190,778	190,778		2,711,556
2017	2,450,000	130,780	130,780		2,711,560
2018	2,580,000	67,080	67,080		2,714,160
Totals	\$ <u>25,335,000</u>	<u>4,965,782</u>	<u>4,965,782</u>		<u>35,266,564</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Debt Repayment Schedule

Series 1999 – Advance from Municipality

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>April 1</u>	<u>April 1</u>	<u>October 1</u>		
2006	\$ 20,291	15,562	14,926		50,779
2007	21,608	14,926	14,241		50,775
2008	22,926	14,241	13,509		50,676
2009	24,507	13,509	12,720		50,736
2010	26,088	12,720	11,828		50,636
2011	27,933	11,828	10,872		50,633
2012	29,778	10,872	9,854		50,504
2013	31,886	9,854	8,763		50,503
2014	33,994	8,763	7,601		50,358
2015	36,365	7,601	6,288		50,254
2016	39,000	6,288	4,880		50,168
2017	41,899	4,880	3,367		50,146
2018	45,061	3,367	1,740		50,168
2019	48,225	1,740	—		49,965
Totals	\$ <u>449,561</u>	<u>136,151</u>	<u>120,589</u>		<u>706,301</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2005 and 2004

	2005	2004
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 5,375,054	4,459,463
Commercial	2,409,104	2,080,482
Industrial	464,169	406,443
Public	263,749	216,962
Irrigation	4,167	3,019
	8,516,243	7,166,369
Total metered sales		
Flat rate sales to general customers	20,345	16,142
Private fire protection	123,346	118,117
Public fire protection	1,017,282	969,224
Sales to other municipalities	1,443,841	1,080,622
	11,121,057	9,350,474
Total sales of water		
Penalties	87,594	78,665
Other	204,929	183,632
	11,413,580	9,612,771
Total operating revenues		
Operating expenses:		
Source of supply:		
Maintenance of lake intake	2,500	—
Power and pumping:		
Operations:		
Supervision and engineering	41,883	35,516
Fuel and power purchased	652,607	564,073
Pumping labor and supplies	95,575	93,724
Leased land	5,400	5,400
Miscellaneous	6,141	8,154
Maintenance:		
Structures and improvements	22,053	26,934
Power production equipment	4,720	1,204
Pumping equipment	50,245	47,376
	878,624	782,381
Total power and pumping		

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2005 and 2004

	2005	2004
Water treatment:		
Operations:		
Supervision and engineering	\$ 78,659	60,654
Labor and supplies	222,431	223,600
Lead testing program	1,485	613
Chemicals	62,696	58,736
Structures and improvements	23,146	33,386
Treatment equipment	350,977	329,387
Miscellaneous	18,964	14,413
Total water treatment	758,358	720,789
Transmission and distribution:		
Operations:		
Supervision and engineering	58,305	20,386
Transmission and distribution lines	59,224	32,195
Meters	46,251	61,915
Customer installation	7,911	4,363
Labor and equipment	402,609	322,470
Maintenance:		
Supervision and engineering	26,256	4,182
Distribution reservoirs and standpipes	410,256	323,310
Mains	464,899	452,270
Services	178,094	175,369
Meters	39,722	54,641
Hydrants	26,521	31,753
Total transmission and distribution	1,720,048	1,482,854
Customer accounting and collecting:		
Meter reading	51,048	46,944
Customer records and collection	217,214	211,501
Total customer accounting and collecting	268,262	258,445

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2005 and 2004

	2005	2004
Administrative and general:		
Executive and general office	\$ 145,458	125,413
Office supplies	25,552	39,557
Outside services	102,083	111,348
Casualty and property insurance	72,197	69,347
Employee benefits and insurance	776,772	820,701
Miscellaneous	19,001	16,353
Regulatory commission	8,102	20,698
Total administrative and general	1,149,165	1,203,417
Total operation and maintenance	4,776,957	4,447,886
Depreciation	1,801,617	1,771,500
Total operating expenses	6,578,574	6,219,386
Operating income	\$ 4,835,006	3,393,385

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Water Unit

Water Tax Equivalent Calculation Schedules

Years ended December 31, 2005 and 2004

Local property taxes due to the City of Kenosha for the years ended December 31, 2005 and 2004 were computed in accordance with PSCW Rules 109.01 through 109.05 as follows:

	<u>2005</u>	<u>2004</u>
Gross book value – January 1:		
Plant and equipment	\$ 90,932,420	86,465,304
Materials and supplies	366,095	368,925
Total gross book value	<u>91,298,515</u>	<u>86,834,229</u>
Less plant outside municipal boundaries	<u>(5,780,425)</u>	<u>(5,522,006)</u>
Assessable plant	85,518,090	81,312,223
Assessment ratio	<u>0.939460</u>	<u>0.994362</u>
Assessed value of property	80,340,825	80,853,785
Local and school share of tax rate (per thousand)	<u>18.343644</u>	<u>18.733203</u>
Computed tax equivalent (floor = \$1,033,306)	1,473,743	1,514,650
Allocated to wastewater unit	<u>(32,506)</u>	<u>(33,536)</u>
Net tax equivalent per income statement	<u><u>\$ 1,441,237</u></u>	<u><u>1,481,114</u></u>

See accompanying independent auditors' report.

**CITY OF KENOSHA, WISCONSIN
WATER UTILITY**
(An Enterprise Fund of the City of Kenosha)
Schedule of Capital Assets – Sewerage Unit
Year ended December 31, 2005

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated:				
Land and land improvements	\$ 1,266,216	—	—	1,266,216
Construction in progress	685,367	1,063,260	222,881	1,525,746
Total capital assets not being depreciated	<u>1,951,583</u>	<u>1,063,260</u>	<u>222,881</u>	<u>2,791,962</u>
Capital assets being depreciated:				
Revenue producing and service equipment	30,834,494	181,265	312,645	30,703,114
Buildings and structures	85,992,544	1,933,081	49,539	87,876,086
Office furnishings, shop equipment, and other	4,063,081	219,987	98,591	4,184,477
Total capital assets being depreciated	<u>120,890,119</u>	<u>2,334,333</u>	<u>460,775</u>	<u>122,763,677</u>
Less accumulated depreciation:				
Revenue producing and service equipment	21,295,419	1,261,392	312,646	22,244,165
Buildings and structures	19,985,932	1,206,530	49,539	21,142,923
Office furnishings, shop equipment, and other	1,942,412	210,182	77,385	2,075,209
Total accumulated depreciation	<u>43,223,763</u>	<u>2,678,104</u>	<u>439,570</u>	<u>45,462,297</u>
Total capital assets being depreciated, net	<u>77,666,356</u>	<u>(343,771)</u>	<u>21,205</u>	<u>77,301,380</u>
Total capital assets, net	<u>\$ 79,617,939</u>	<u>719,489</u>	<u>244,086</u>	<u>80,093,342</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)
 Sewerage Unit
 Debt Repayment Schedule
 Series 1992 – Clean Water Fund Loan

<u>Year</u>		<u>Principal</u>	<u>Interest</u>		<u>Total</u>
		<u>May 1</u>	<u>May 1</u>	<u>November 1</u>	
2006	\$	1,364,048	215,352	188,085	1,767,485
2007		1,418,582	188,085	159,727	1,766,394
2008		1,475,297	159,727	130,236	1,765,260
2009		1,534,280	130,236	99,566	1,764,082
2010		1,595,620	99,566	67,670	1,762,856
2011		1,659,413	67,670	34,498	1,761,581
2012		1,725,757	34,498	—	1,760,255
Totals	\$	<u>10,772,997</u>	<u>895,134</u>	<u>679,782</u>	<u>12,347,913</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 1993 – Clean Water Fund Loan

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>May 1</u>	<u>May 1</u>	<u>May 1</u>	<u>November 1</u>	
2006	\$ 286,010	52,933	47,191	386,134	
2007	297,493	47,191	41,219	385,903	
2008	309,438	41,219	35,007	385,664	
2009	321,861	35,007	28,546	385,414	
2010	334,784	28,546	21,825	385,155	
2011	348,226	21,825	14,836	384,887	
2012	362,206	14,836	7,564	384,606	
2013	376,750	7,564	—	384,314	
Totals	\$ <u>2,636,768</u>	<u>249,121</u>	<u>196,188</u>	<u>3,082,077</u>	

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 2000 – Clean Water Fund Loan

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>May 1</u>	<u>May 1</u>	<u>May 1</u>	<u>November 1</u>	
2006	\$ 67,892	20,257	19,182	107,331	
2007	70,043	19,182	18,072	107,297	
2008	72,263	18,072	16,927	107,262	
2009	74,553	16,927	15,745	107,225	
2010	76,915	15,746	14,527	107,188	
2011	79,353	14,527	13,269	107,149	
2012	81,868	13,269	11,972	107,109	
2013	84,462	11,972	10,634	107,068	
2014	87,139	10,634	9,253	107,026	
2015	89,900	9,253	7,829	106,982	
2016	92,749	7,829	6,359	106,937	
2017	95,688	6,359	4,843	106,890	
2018	98,721	4,843	3,279	106,843	
2019	101,849	3,279	1,665	106,793	
2020	105,077	1,665	—	106,742	
Totals	\$ <u>1,278,472</u>	<u>173,814</u>	<u>153,556</u>	<u>1,605,842</u>	

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 2003 – Sewerage Revenue Bonds

<u>Year</u>		<u>Principal</u>	<u>Interest</u>		<u>Total</u>
		<u>January 1</u>	<u>January 1</u>	<u>July 1</u>	
2006	\$	1,025,000	126,044	112,719	1,263,763
2007		1,050,000	112,719	96,181	1,258,900
2008		1,100,000	96,181	76,106	1,272,287
2009		1,150,000	76,106	52,531	1,278,637
2010		1,200,000	52,531	26,731	1,279,262
2011		1,175,000	26,731	—	1,201,731
	Totals	\$ <u>6,700,000</u>	<u>490,312</u>	<u>364,268</u>	<u>7,554,580</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
 (An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Debt Repayment Schedule

Series 1999 – Advance from Municipality

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>April 1</u>	<u>April 1</u>	<u>October 1</u>		
2006	\$ 20,634	15,825	15,179		51,638
2007	21,975	15,179	14,483		51,637
2008	23,315	14,483	13,738		51,536
2009	24,922	13,738	12,935		51,595
2010	26,531	12,935	12,029		51,495
2011	28,406	12,029	11,057		51,492
2012	30,282	11,057	10,021		51,360
2013	32,426	10,021	8,912		51,359
2014	34,570	8,912	7,729		51,211
2015	36,982	7,729	6,394		51,105
2016	39,661	6,394	4,963		51,018
2017	42,609	4,963	3,424		50,996
2018	45,825	3,424	1,770		51,019
2019	49,039	1,770	—		50,809
Totals	\$ <u>457,177</u>	<u>138,459</u>	<u>122,634</u>		<u>718,270</u>

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2005 and 2004

	2005	2004
Operating revenues:		
Metered sales to general customers:		
Residential	\$ 4,184,260	4,156,376
Commercial	2,229,923	2,172,057
Industrial	1,085,845	1,118,188
Public	195,290	189,171
Total sales to general customers	7,695,318	7,635,792
Sales to other municipalities	1,768,402	1,804,037
Industrial waste monitoring	88,836	84,240
Engineering services	1,056,972	892,416
Waste haulers	203,757	267,251
Penalties	89,158	87,362
Other	65,644	46,942
Total operating revenues	10,968,087	10,818,040
Operating expenses:		
Wastewater treatment:		
Operations:		
Supervision and labor	400,243	404,553
Chemicals	459,694	382,219
Power	504,424	464,144
Sludge handling	396,251	421,547
Maintenance:		
Supervision and labor	229,740	216,614
Treatment equipment	318,939	312,254
Structures and improvements	76,585	156,505
Transportation expense	63,204	43,034
Total wastewater treatment	2,449,080	2,400,870
Collection system:		
Collection	335,527	311,199
Equalization basin and pump station	38,377	50,237
Cleaning and inspection	256,613	218,791
Lift station equipment	97,419	87,475
Monitoring equipment	1,904	5,406
Total collection system	729,840	673,108
Laboratory operations:		
Labor and supplies	237,756	226,381
Industrial waste monitoring	81,943	70,646
Engineering services	999,182	840,334

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)

Sewerage Unit

Schedules of Operating Revenues and Expenses

Years ended December 31, 2005 and 2004

	2005	2004
Customer accounting and collecting:		
Meter reading	\$ 51,048	46,944
Customer records and collection	183,294	144,817
Total customer accounting and collecting	234,342	191,761
Administrative and general:		
Salaries	192,601	178,513
Outside services	511,132	259,878
Office supplies	32,064	32,295
Accidents and damages	24,924	28,669
Insurance and employee benefits	916,800	931,076
Meter operation	304,564	350,115
Total administrative and general	1,982,085	1,780,546
Total operation and maintenance	6,714,228	6,183,646
Depreciation and amortization	2,692,591	2,667,670
Total operating expenses	9,406,819	8,851,316
Operating income	\$ 1,561,268	1,966,724

See accompanying independent auditors' report.

CITY OF KENOSHA, WISCONSIN
WATER UTILITY
(An Enterprise Fund of the City of Kenosha, Wisconsin)
Schedule of Capital Assets – Household Hazardous Waste Unit
Year ended December 31, 2005

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets being depreciated:				
Buildings and structures	\$ 48,194	—	—	48,194
Office furnishings, shop equipment, and other	1,412	—	—	1,412
Total capital assets being depreciated	49,606	—	—	49,606
Less accumulated depreciation:				
Buildings and structures	20,235	1,927	—	22,162
Office furnishings, shop equipment, and other	444	118	—	562
Total accumulated depreciation	20,679	2,045	—	22,724
Total capital assets, net	\$ 28,927	(2,045)	—	26,882

See accompanying independent auditors' report.